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**Michele Bullock**

Governor

## Transcript

### Governor Michele Bullock

Hi all. Thank you for coming. So today the Board decided to leave the cash rate unchanged. The forecasts published today are very similar to those we published in August. Underlying inflation is forecast to be back in the top of target band by end 2025 and the mid-point of the band by the end of 2026. Given this and the news since the November meeting the Board judged that it was appropriate to leave the cash rate where it is.

Inflation has fallen substantially since the peak at the end of 2022 as supply chain issues have abated and higher interest rates have been working to bring aggregate demand and supply closer to balance. Underlying inflation in the September quarter is still too high. While trim mean inflation declined to 3.5% over the year it was little changed at 0.8% in the quarter.

This time last year trim mean was at 5.2%, so we have made good progress. But as we've seen throughout the year this last part of the job of getting inflation down is not easy or straightforward. Some price pressures remain and that's what's keeping pressure on households.

Headline inflation was 2.8% over the year to September quarter, down from 3.8%. This was as expected due to declines in fuel and electricity prices in the September quarter, but part of this decline reflects temporary cost of living relief.

Services inflation remains elevated, although growth in advertised rents has slowed more than expected in recent months and this will flow through to lower CPI rent over time. The labour market remains tight, and while conditions have been easing gradually, some indicators have recently stabilised. The unemployment rate has been close to 4.1% for some time now. Participation rate remains at record highs, vacancies are still elevated and average hours worked is steady. Survey measures continue to indicate that labour availability is constrained. Wages growth has continued to ease, but still generally above rates consistent with inflation targets, given the weak productivity growth.

So what does all this mean? Right now we believe that settings are restrictive and we need to keep rates restrictive for the time being. The Board needs to be confident that inflation is moving sustainably towards the target and we need to see more progress on underlying



inflation coming down. We're watching the data closely and we're not ruling anything in or out.

So thank you and I'm happy to take your questions.

### **Shane Wright (SMH/AGE)**

G'day Governor, Shane Wright from the SMH and The Age. I just want to go to that very last point you made about not ruling anything in or out. You have inflation - headline inflation - forecast to be within the band for the full year, first time since Barack Obama was President and Fiorente had won the Melbourne Cup. You've got your trimmed mean and underlying measures all falling down. How can you suggest with saying we're not ruling anything in or out that there may be an interest rate rise on the horizon, based on your own forecasts you cannot get there, your next move has to be down some time.

### **Governor Bullock**

So, the reason I say we're not ruling anything in or out is we do think that there are still some risks on the upside. We talked earlier about - we talked in the statement about some of the risks on the downside, but the underlying inflation that we're experiencing is still sitting at around about 5% for services. That's still a significant amount of inflation in the system, and what that's suggestive of is that demand is still above supply which we've talked about before. And we still have a labour market which looks on the tightish side, and as I said earlier in the statement, there are some signs that some of the easing in the labour market might have stabilised a bit. Things like youth unemployment, for example, has stopped rising. Things like average hours worked isn't declining as much as it was. So there's just some things at the edges that suggest that there might be a little bit of upside risk in here. That's why I say we can't rule anything in or out.

### **Jack Quail (The Australian)**

Governor Bullock, Jack Quail from the Australian. Thanks for your time today. In your annual review of forecasts it noted that the RBA had underestimated government growth in spending. Can you tell me where growth in government spending has been stronger than expected and is there a risk that you could underestimate the growth in government spending again next year, it's an election year, we could see opening the fiscal purse strings again then.

### **Governor Bullock**

Thanks Jack, so the way we forecast government spending is to take what governments have announced in effect. So there's a few reasons we might underestimate. One is if they announce additional things, after we've already made our forecasts, and that's certainly happened, and I should emphasise here it's not just the federal governments, it's the state governments as well. So in the fact that we've had to revise up our public demand forecasts it's reflected the fact that there's been more announcements and more things going on. There's also partly a timing thing going on. So sometimes the timing, particularly of infrastructure projects, can move so that means that we expected something to come later



and it's come forward or something that was delayed has now arrived in this particular financial year. So there's some of those sorts of things going on. The third factor I mentioned was the state governments. So you can imagine with all of that, we have to take what's announced, but we have to revise once those things are announced. That's the answer.

### **David Chau (ABC)**

Governor, David Chow from ABC News. So what do you think will happen to Australian inflation if Donald Trump becomes US President again and imposes widespread tariffs, and have you done any economic modelling on that?

### **Governor Bullock**

So more broadly we think about geopolitical risks and the things that might happen depending on various outcomes, a US election is one thing but there's obviously Ukraine and Middle East and all those sorts of things. We don't do specific scenarios for every single one of those otherwise we could obviously spend all our days do scenarios. I think the best way to think about what's going on in the United States, the United States people are going to make a choice. Once we find out what that is and what the policies of that particular person who is elected and the administration is, then we can make decisions about what that might imply for the world economy, but I think it's premature to actually do it ahead of that.

### **Micheal Read (The Australian Financial Review)**

Governor, Michael Read from the Australian Financial Review. Would another quarterly trimmed mean print of 0.8% in the December quarter still be too high for the Board to consider a cash rate cut early next year, and just separate by what's your current thinking on publishing Board member votes and Board member speeches next year?

### **Governor Bullock**

So that's two questions . On the latter we haven't talked about that. That's a matter for the government to figure out what they're doing with the legislation, and the Parliament, so that issue isn't on our agenda at the moment. On the second question, I wouldn't want to be too precise on two numbers, but if we were continuing to get .8's as quarterly, that's not taking us back into the band so I think we do have to not only focus on what the quarterly number is, but we have to focus on what the momentum is and that would mean that we would have had .8, .9, .8, .8, looks pretty flat. So what we're forecasting is that it's going to come down gradually, but it is going to come down through next year. But it's going to be gradual.

### **Deb Knight (Nine Radio)**

Deb Knight from Nine Radio. I'm going to do a two-parter question too. Did you back a winner on the Melbourne Cup, part 1, and part 2 are you at odds with the government on how the economy is actually tracking because the treasurer has said the economy is being smashed and you're saying that the economy is running too hot at the moment with inflation. Who's right?



### Governor Bullock

No, I didn't actually back anyone on the Melbourne Cup. I'm embarrassed to say it, but actually I didn't even watch it. So I don't even know who won. On the second question, no, I don't think we're at odds. I think we're talking about slightly different things. So it's true that the economy is not growing and we know that in per capita terms it is declining and consumption per capita is declining and what's keeping aggregate demand, even though it's not growing very much, what's keeping the level high is population growth. I think that's what the government is getting at, in addition to which I think they're focusing on what's happening with private demand, which is particularly weak. What we're saying is this levels point. We're saying, that aggregate demand is still above the ability of the economy - so even if it's not growing - it's still above aggregate supply, and that sounds slightly esoteric, but the way I would describe it is if you think of the example of the building industry at the moment, demand isn't growing there, but there's still inflationary pressure there because the ability to supply even that level of demand is not there, they can't get workers. So that's sort of a concrete example of where you can see the level of demand is greater than the level of supply and that's what produces inflationary pressures. That's what we're talking about. So I think it's slightly different.

### Amelia Brace (7 News)

Governor, thank you for your time. Amelia Brace from 7 News. I'd love to get an update on your six-month out look or guidance. A few months ago you said not ruling anything in or out but don't expect a rate cut before Christmas. Can you now say don't expect a rate cut in the first half of next year?

### Governor Bullock

I'm not going to be drawn into another forward guidance. I want to sort of steer clear of that. What I would say is that I think at the moment we've got the right settings, we think monetary policy is restrictive and that's showing up in a number of parts of demand including private sector demand. We will assess the information as it comes through, including the forward-looking indicators from our liaison and surveys and so on, and we will try to make sure that we're tuned-in enough that if things start to turn down more than expected that we're ready to act. But we don't know.

### Poppy Johnston (AAP)

Thanks Governor. I just wanted to ask about rents, as you highlighted they have been softening, though measures of advertised rents ticked up a little last month. Are you confident in the direction of travel when it comes to rents and house inflation more broadly?

### Governor Bullock

On the direction of travel in rents, I think we are reasonably confident that that will start to ease. There's a couple of things going on. I think we're starting to see average household size rise a bit, so that reduces a little bit of pressure on rental. I think the reductions in,



forthcoming, in population growth will help a little bit there as well. Housing prices I wouldn't like to predict where housing prices will go, frankly, but I think the fundamental point is that the supply of housing is not enough to meet the demand for housing generally and that's what's showing up in rents and house prices. So the fundamental problem here is that we haven't been building enough housing for our population and that's what's driving both of those particular events with rents and housing prices.

### **Michael Janda (ABC)**

Governor, Michael Janda from ABC News. Currently the market conditions such as unemployment and under employment look very strong and in line with the RBA's forecasts but in your statement on monetary policy the forward-looking indicators such as job ads, new hires, employment intentions all look historically weak. Are you at all concerned about the risk of a sudden deterioration in the labour market?

### **Governor Bullock**

So we've had a little look at this and it's true that there sometimes can be quite sudden deterioration in the labour market. We're not predicting that on this occasion because we're not predicting a big recession. So that's usually when you see the strong responses in the labour market. It's also true, though, that vacancies remain quite elevated and we do look quite different than many countries overseas at the moment. Some countries, who have had quite restrictive monetary policy, have seen quite substantial rises in unemployment and they actually feel that they are - they've got an output gap now, supply is actually above demand. That's the reflection of what they are seeing in terms of their demand/supply imbalance. We still don't think we've got that yet, and quite frankly I have to say an unemployment rate of 4.1%, if you'd said pre-COVID we could have that, I wouldn't have believed you probably. So it's still - it's a remarkable outcome, and yes we're watching, and it is softening, but I don't see a massive sharp turn around. But we'll be alert to it.

### **Peter Hannam (The Guardian)**

Peter Hannam from The Guardian. Just to clarify, did the RBA consider a rate cut at the Board meeting this time around or was it just the single option of staying on hold? Just as a secondary question, while waiting to decide whether to raise rates your predecessor said he was waiting to see underlying inflation actually in the target range not just forecast to be. Previous Governors, though, had said the bank needed to be guided by its forecasts or the long lags would lead to overshooting. Just wonder where you stand on this.

### **Governor Bullock**

So on the second question, what we're looking for is evidence that it's going to be back sustainably in the band. I don't think that necessarily means it has to be absolutely back in the band, but we need to be pretty convinced that it's heading there with a fair degree of confidence. If you look overseas most central banks are easing the restrictiveness in their policies even though they're not quite back to target yet because they're confident they're getting there, because of the points you raise about lags and so on. On what the Board



considered at this meeting, it did a similar thing to what it did at the September meeting. It took stock of the forecasts, it took stock of the information that it had and asked the question do we think that we're restrictive enough to deliver inflation back to target within the timeframe that the Board's comfortable with, and it looked at all that and decided that yes that was the right decision. Its conversation was more around what would we need to see for us to change our mind in either direction . That was more the conversation.

### **Jonathan Shapiro (The Australian Financial Review)**

Governor, Jonathan Shapiro from The Fin Review. Most of my questions have been taken.

### **Governor Bullock**

Make it up on the spot

### **Jonathan Shapiro**

I had to scramble one together and it is an okay one (laugh). In your annual review of your forecast it showed that the RBA's gotten labour productivity wrong most times, and if you were a betting person, which we know you aren't, why do you think this time the RBA might be right in getting that figure right.

### **Governor Bullock**

And it's a good question, Jonathan, well done.

### **Jonathan Shapiro**

Told you it would be.

### **Governor Bullock**

Look, we are looking at productivity. I think everyone has been a bit surprised about productivity. Productivity had not been performing very well pre-COVID and then I think I've talked about this in previous press conferences, all of the ructions with COVID meant that quarterly productivity numbers have been quite difficult to read. They've been very volatile, all over the place. I think I've said before that in the medium term, which is I think the way we need to think about productivity rather than quarter on quarter, there are some reasons to think it will pick up and some of those reasons include technology. Include the fact that workers are hard to get and they're expensive so you would expect businesses perhaps to be thinking about ways they could improve productivity. So that's sort of a medium-term point. The point about productivity is that it's really important for growing our living standards, as I've said before. It grows the pie so there's more of it to share around, and it's important for inflation in the sense that if we're not getting productivity growth then that limits how far wages can rise or how quickly wages can rise without causing inflation. So it has implications for wage rises for people. That's why it's important. So will we get it wrong again? I don't know. Quite possibly. We are trying very hard, though, to dig in and around what's going on



with productivity, but I would encourage you to think about it more in the medium term rather than in the very short term.

### **Stella Qiu (Reuters)**

Hi Governor, Stella Qiu from Reuters. So we have inflation heading towards the right direction but with a labour market so strong you just revised up the outlook for the job gains. I'm just wondering does the strength in the labour market shift your thinking on rates at all? Like what do you think?

### **Governor Bullock**

The forecast we still have employment growth easing, and that's still coming through at the moment, it's still coming through in our forecasts, and we do see that inflation can come down in those circumstances back down to target gradually. So it's not until end of next year and then 2026 to hit the mid-point of the target. So we are watching it carefully, though, for two reasons. One, we don't want it to accelerate, if you like, unemployment rate to move too quickly, but it also does give us a very strong indication of what the output gap might look like. What is the ability of the economy to supply workers to do what's being demanded by people spending. That's the question. At the moment we think those, that imbalance is easing and it's easing slowly, but what we've said before what we do want do is try and make sure that we preserve this really strong labour market, this good labour market, that we've had coming out of the pandemic.

### **Swati Pandey (Bloomberg)**

Governor, Swati from Bloomberg News. A couple of meetings ago when you did the press conference market pricing was for interest rate cuts to happen in the November/December period and you were quite successful in guiding the market out and since then data has also been stronger and that has driven markets to price in rate cuts in the first half of 2025. Is that too far stretched now given that my reading from the statement and your press conference is that there is greater confidence now that inflation is sustainably moving inside the target band? So is the market pricing far stretched to May 2025?

### **Governor Bullock**

So we use the market pricing as our assumption for the cash rate target when we do our forecasts. The cash rate target, as you point out, has - the extent to which it's staying level now has shifted out, and that particular assumption, along with our forecasts, suggests that inflation will come back within the band. So I'm not saying that's our forecast for the cash rate because, as I've said a number of times before, we have to make forecasts, we have to do them to try and guide ourselves. But forecasts are inherently difficult, they're uncertain, and the further out you move the bigger the error bands are around them. So what do I say to the cash rate path at the moment? It seems as good as any. But we'll have to be watching, and we are prepared to move if the data suggests that, for example, if consumption comes in much weaker than we're expecting and the demands - and the private demand side of the economy is coming in much slower than expected - that might be something that's worth



looking at and thinking whether or not that's going to feed through to inflation and does that have implications for the cash rate path. That's the sort of questions we have to keep asking ourselves.

### **Tom Dusevic (The Australian)**

Governor, Tom Dusevic from The Australian newspaper. We look at what voters are saying they want action by the Federal Government to ease their cost of living. We're in the final quarter of a federal electoral cycle and there'll be a temptation for both the major parties to offer some big promises to do just that, to meet voter expectations. You said quite emphatically that public demand is not the main game when it comes to interest rates, but if there is a significant deterioration in the fiscal stance, will interest rates be higher for longer and will you call that out?

### **Governor Bullock**

Thanks, Tom. So, I've said it's not the main game, and the other point I would make is that, at the moment in our forecasts you'll see what's happening is that public demand is offsetting a lot of weakness in the private sector side. So we still, with those circumstances, have inflation coming back to target in a reasonable way. My reading, when I speak privately to the Treasurer, and when I hear him speak on television and radio, is that he's fully aware of the inflationary implications, of his own policies, he needs to be thinking about that, because he -like me - understands that inflation is really what's hurting people at the moment, and in fact the two points - even though we emphasise headline inflation - underlying inflation as being the pulse of inflation - the fact that inflation now, for the last year, has only been 2.8% actually is real for people. They are seeing lower petrol prices, they are seeing lower electricity prices so this is good, this is good for people. I'm not suggesting it isn't. It is good for them. It's just that we need to see the underlying pulse also decline so that over time we end up with inflation, for everyone, that is back with a 2 in front of it, hopefully about a 2.5. So I think that the governments are well aware that inflation is the big thing here and cost of living and that's what's hurting people, and I expect, they will be very conscious of it.

### **Millie Muroi (SMH)**

Hi Governor. Millie Muroi from the Sydney Morning Herald. You've said a lot of central banks around the world are now more confident that inflation will return sustainably to target and they're also becoming a bit more attentive to the downside risks. What will it take for the RBA to reach that level of confidence, and has the bank also started giving a bit more weight to the downside risks recently?

### **Governor Bullock**

So Milly, at the moment I think we're still fairly balanced in this respect. I think the forecasts are fairly balanced. We see risks on both sides. We're not as restrictive, we didn't go as restrictive as many of these other central banks, and those that are easing now, are easing but they're still keeping a bit of restrictiveness in most cases, they're just easing them out of restrictiveness. So we weren't as restrictive as some of them. We still see the risks, I think, as



balanced on both sides here. What will it take for us to change our mind on the downside? As I said earlier it might be that consumption really does not perform. We expect consumption to start picking up as real incomes rise and wealth is rising as well. But if that doesn't eventuate then that suggests that demand isn't going to be quite as strong. On the other hand, we talked about productivity. If productivity doesn't pick up and the supply side of the economy is still constrained that might mean that inflation, if wages are not responding and growing less as well, that might mean there's more inflationary pressures on that side as well. So I still think we've got a bit of a balanced perspective in our mind on this.

### **Cecile Lefort (AFR)**

Governor, Cecile Lefort from The Financial Review. My question is about the recent bond market sell-off, and of course there are some interpretations going to what certain candidate in the US may win the election, but another interpretation is about the strength of the US economy and the sticky inflation and The Fed may not be able to rate cuts as aggressively as some may have thought. Does it mean that here in Australia you may not be able - you may be less likely to cut rates next year? I realise you have your own reasons here, domestic reasons here on rates.

### **Governor Bullock**

What's going on offshore is important, obviously. So if the United States is much stronger than expected, then that will have implications for the world economy, and that might well have implications therefore for the strength of demand in the world and ourselves as well. So there's that angle. The second angle is that if our domestic conditions warrant a rate cut notwithstanding what's going on in the United States then we have the flexibility to do that because we have a floating exchange rate. Now, we have to take into account what's going on with interest rates overseas, but it does mean that we can take some of the pressure, through the exchange rate channel, if we choose to do so. So I think, you know, our focus is domestic, but we can't ignore what's going on overseas and we have the flexibility given a floating exchange rate to set interest rates which are appropriate for our economy.

### **Fiona Willan (Sky News)**

Governor, Fiona Willan from SkyNews. I have a two-part question because I'm trying my luck. The COVID inquiry found the government spent too much. Would you agree with that? The second part is the last couple of years have been really difficult for many Australians from a cost of living perspective. If you had to describe in a couple of words what next year will feel like what would you say?

### **Governor Bullock**

That's a difficult one. On the COVID inquiry, I'm not - I confess I haven't read 800 pages of it. I've read the recommendations. I think it's very easy with hindsight. What I would say is that when fiscal and monetary policy work together they can be very powerful and what we were facing back in March/April 2020 was a complete disaster, and I think people forget that sometimes. We forget what we were looking down the barrel of. So with hindsight they've



concluded that there might have been too much fiscal impetus, but I just remind you all that what we were facing back in March/April 2020. What will I say to people about next year? I'm hopeful that we'll continue to see inflation coming down and costs of living pressures to ease, but I would remind people of a couple of things. The first is that inflation eases price levels don't decline. We can bring inflation back down, but that doesn't mean that prices go back to where they were two years ago. The price level has permanently risen. And that's why it's really important to get inflation back down to around about 2.5% because it means that the price level isn't ratcheting up and compounding on itself year after year which is what we're observing at the moment. So I would like to hope that things are going to get a little bit easier in the cost of living area, but it's going to take time.

### **Sophia Rodrigues (CB Intel)**

Sophia Rodrigues from Central Bank Intel. You're once again talking about the need to remain vigilant to upside risk to inflation and that the Board is not ruling anything in or out. On the other hand the market is not pricing any rate hike, neither are the economists. Is this a communication issue, credibility issue, or the market saying we know you're going to be wrong?

### **Governor Bullock**

No, I actually think that the market is actually reasonably on message about what we're saying here, which is that we are not at the moment in a position where we can sustainably say inflation is going to be back in the band, and we want to be more convinced of that, and I think what the market is reflecting is that they understand that point of view. And the risks are balanced. we don't want to say we're ruling one out or the other out because we honestly at the moment just want to make sure that we have got inflation continuing to come down. The forecasts have it coming down, but as I've said, the forecasts, the further out you go, the more uncertain they get. So we just need to be convinced that that's what we're delivering and I think that's exactly what the markets have factored in

### **Ian Rogers (Banking Day)**

Hi, Ian Rogers from Banking Day, bit of a change in theme but it does relate to inflation. Governor, the RBA invested heavily in the new payments platform to provide a faster way for people to get paid. This system will progressively replace BECS, which is free for any consumers and most businesses but we understand the banks are talking to the RBA about introducing an interchange-like fee for these transactions, potentially impacting billions of dollars worth of payments. What is the RBA and the government doing in the regulation area to ensure this doesn't impose other inflation pressure on people paying bills and businesses paying superannuation and payroll?

### **Governor Bullock**

Thanks, Ian. This is really a press conference to talk about the monetary policy decision and what you're going into there is quite a complex and detailed question about interchange and



the payments system. There'll be plenty of opportunities to talk about that on other occasions, but for the moment I'd like to keep the focus on monetary policy. Thanks.

### **David Taylor (ABC)**

Governor, David Taylor, ABC. I feel like this is a little bit of an elephant in the room, but based on your personal judgment, so not the RBA, just your judgment, how many Australians are going to need to lose their job in order for core inflation to be sustainably between 2 and 3%? Because at the moment the forecasts is 4.5%, it's 4.1, I'm guessing there's hundreds of thousands of Australians who need to lose their job for inflation to finally come down. What's your view on that?

### **Governor Bullock**

This concept that somehow unemployment is going up so people are losing their jobs, it sort of - it misses, I think, the key point which is what we're actually forecasting is that employment just doesn't grow as fast as the labour force grows. So it's not that people are being tossed out of work like in a recession, which would see a sharp rise in the unemployment rate. It's just that those that are coming into the labour force are finding it more difficult to get jobs and they're going on to the unemployment queue rather than into a job. So I guess that's what I'd emphasise about it and that's what I think we've been trying to - that's when we talk about the narrow path - that's what we're talking about. We're talking about a situation where vacancy - because vacancies are still really elevated as well so there's a number of things that are quite tight in the labour market, the labour market is really tight.

### **Governor Bullock**

Those things as they start to come off, it just means that people coming into the labour force, perhaps it takes them a little longer to get a job than it did in the past or maybe they have a particular job they want to do and they can't find that job, they've got to go do something else that they would prefer not to do. Those are the sorts of things I think we'll expect to see, but I'd like to get away from this idea that just because the unemployment rate rises it means people are being tossed out of jobs. That's not actually what we're forecasting at this point.

### **Hugo Mathers (Capital Brief)**

Thank you, Governor. Hugo Mathers from Capital Brief. It's now been a year since the RBA last increased rates. Can I ask in hindsight whether you think the path taken by the RBA has been the best one and whether the RBA could have raised rates any faster or for longer.

### **Governor Bullock**

So we did take a different path than some other countries and if you go to the statement on monetary policy there's a neat graph in there which, is uncertain, but it tries to give you a bit of a feel for how restrictive we are in terms of interest rates relative to some other countries. Some other countries went up much higher, much more restrictive and they're coming down more quickly. Some of those countries, Canada and New Zealand for example, are finding



their unemployment rates rising quite quickly. So we tried a different tack. We wanted to maybe policy restrictive enough to bring inflation down within a reasonable period while at the same time trying to preserve the gains in the labour market, something with a 4 in front of it, which is fabulous. Could we have done something different? We could have done what others did overseas. We decided not to. We took this particular path. So far I think we're still on that path and I think the Board still thinks we're on that path. So if we thought we were making a mistake we'd have to take action, but at this stage we still think we're on that path.

### **Juliette Saly (Ausbiz)**

Governor, Juliette Saly from Ausbiz and, Jonathan thought he had it hard, getting to very end of the questions here, but in September you mentioned around 5% of mortgage holders may face quite painful adjustments. With the likelihood that rates are going to be on hold potentially now until May is what most people are forecasting, what does that number potentially increase to?

### **Governor Bullock**

Well, it's hard to know. They were scenarios, I think it was the financial stability review we were talking about in that context, I don't think it would rise that much further. I'd make a couple of points, though, that suggest it might actually ease off. One is that interest rates haven't risen for a year, so that's helpful. Two, the employment market is remaining really strong, so that's good because one of the worst things for people trying to pay off mortgages and meet their bills, is losing their job. So that's another reason why it's really important we try and maintain the gains in the employment market. The third thing is that real incomes are rising again. As inflation is declining and wage growth is, sort of a bit higher than that, and you've got the tax cuts, real incomes are rising again. So I'm not actually sure - I haven't done the scenarios so I wouldn't know - but my expectation is that it wouldn't necessarily rise a lot over the coming year if those sort of things remain steady.

### **Michael Stutchbury (AFR)**

Governor, Michael Stutchbury Financial Review. Communicating with the public is the new frontier of central bank communication policy. Do you think that the general public understands the root cause of the inflation outbreak over the past few years and there's been a bit of reference to it here that the RBA stimulus and the Federal Government policy stimulus, while understandable, given the downside risks and probably certainly popular at the time, proved to be excessive and spilled over the economy's reduced supplied side capacity? Does the public understand what you called an esoteric point that aggregate demand still exceeds aggregate supply.

### **Governor Bullock**

It's a good question Michael, and I don't know, and that's why I gave the example of the building industry to try and make it concrete. Another example that might make it concrete for people in terms of level of demand being above level of supply, I don't know if you remember back when we were first coming out of COVID and lockdowns finished and



everyone wanted to go out to dinner, and I don't know - the number of times I struck - I couldn't get into a restaurant or the restaurant was half closed because they couldn't get staff, the cost of hiring staff was going up - so that's a practical sense in which the level of demand, the demand that people were making for, say, restaurant meals was outstripping the ability of the restaurant industry to supply those meals out, if you like. So when I talk about aggregate demand being above aggregate supply in total, which is important for inflation in total, if you think - using that sort of example - or the building example - I hope people can understand that that's the sort of thing we're talking about here, but we're talking about it in total for the economy. That's the sort of comparison I'd like people to think about in their heads. So, yes, ultimately things adjust, so in the building industry ultimately we hope that we'll get more people going into trades, to supply where we're undersupplied for trades people, but that takes time. It takes time to train them, it takes time to put them in and skill them up. So these are the sorts of things that why some of this inflation is quite sticky, because it takes time to address those sorts of issues. I don't know if that answers the question.

#### **Cameron Micallef (NCA News Wire)**

Cameron from NCA News Wire. Unemployment is at a 50-year low. Is this worth protecting over getting trimmed mean down?

#### **Governor Bullock**

Well, as I said earlier it is really - we think it is important. We have a dual mandate, but ultimately we won't do well on our employment mandate if inflation gets out of control. So we do need to make sure that we bring inflation down. Having said that, it is really important for the reasons I mentioned earlier that people have jobs and that people have an opportunity to earn an income, not only to meet their financial obligations but just for their own personal health. It gives people purpose, it gives people something to look forward to, to go to - maybe look forward to, maybe not (laugh) - but there's lots of benefits to people having jobs. I'm sort of speaking on two sides here. On the one hand, yes it is important that we try to keep as many of the gains in the labour market as we can for those reasons. Having said that, if inflation gets out of control it is bad for the labour market. So we really need to make sure that we continue to bring the inflation rate down.

#### **Michael Heath (Bloomberg)**

Governor, Michael Heath from Bloomberg News. In the statement on monetary policy there was a graph there that sort of implied that the neutral rate of the RBA was estimated about 3.5 per cent, I think. Without providing forward guidance, when rate cuts do come, perhaps the expectation out there is that there's going to be quite a significant cutting, as you've said, in other countries. Is the reality that it's more likely to be a fairly shallow easing cycle compared to other nations?



## Governor Bullock

Well, there's a lot of uncertainty around those neutral rates, as you highlight. I think the point I would draw - I don't want to get drawn on how low interest rates will go - but I will make the point that the interest rates that we saw through COVID, unless we're back in another absolutely disastrous situation, that is not normal. Interest rates around the world and in Australia in that period were at emergency lows. So when interest rates are coming down overseas, as they are, and if and when they start to come down in Australia, they're not going back where they were in COVID. The neutral way is one way of thinking about that, but I wouldn't like to put too much of a precise point on what the neutral rate is and therefore that's where we're heading because I think it's very difficult and it's very uncertain. But you're quite right to make the point that they're not going back to where they were in COVID. That was emergency settings.

Thank you all. Thanks.